

# Metro Everett Plan – Market Evaluation

Date April 2016  
To Paul Popelka, City of Everett  
From Leland Consulting Group

## Introduction

The City of Everett's Planning and Community Development Department engaged Leland Consulting Group (LCG) to conduct this market evaluation as part of the Everett Metro Center Plan and Brownfields Assessment efforts. The focus of LCG's analysis, and this memorandum, has been to:

- Estimate a 10- and 20-year forecast of residential and commercial development;
- Identify metrics that suggest which properties and areas are likely to redevelop;
- Conduct a preliminary review of the zoning code within the Metro Center, and recommend zoning modifications that could encourage development; and,
- Provide "big ideas" that could assist with the ongoing success of the Metro Center.

## Economic Development Context

This Metro Center planning effort takes place within the context of several national and international economic trends. The first is the exceptional ongoing strength of the Puget Sound economy; the second is the "downtown rebound" trend that has gained momentum in recent decades. Both are very beneficial to the Everett Metro Center. However, they do not guarantee success on all fronts, since the fortunes of the entire Puget Sound region do not necessarily translate directly to development in central Everett.

One excellent source for national and regional perspective on current real estate trends is the Urban Land Institute's (ULI) annual *Emerging Trends in Real Estate* report. The 2016 report ranks the Seattle region as number four for development and investment prospects among 75 metropolitan markets nationwide—above San Francisco, Los Angeles, and New York. The following are relevant excerpts from the Emerging Trends report. The Seattle region:

Has a diverse industry base and is benefiting from growth in the technology, advertising, media, and information (TAMI) industries. One interviewee noted that Seattle is one of those markets where the growth has been strong enough, long enough, that the only potential risk is being able to sustain its current pace. The 2016 outlook for all the commercial sectors of the Seattle market is relatively strong with the exception of hotels...

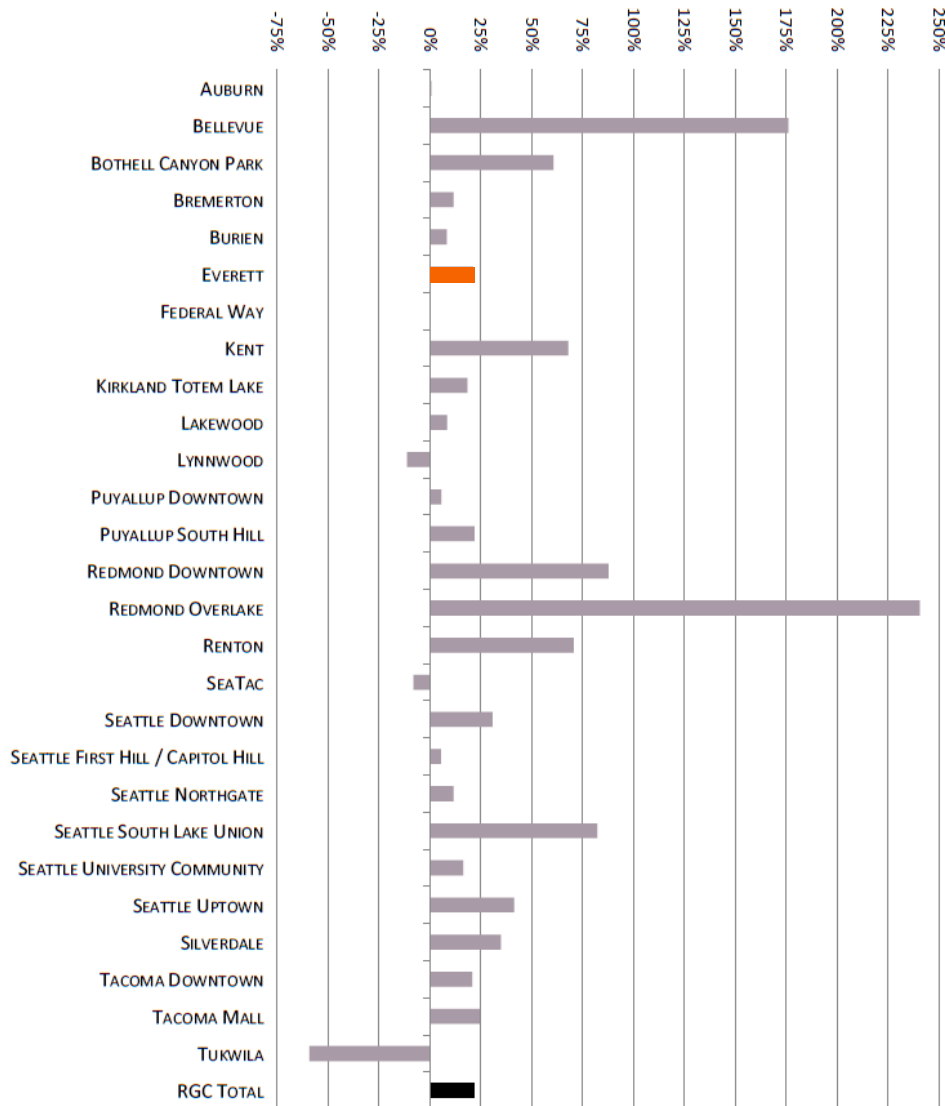
The local outlook for the economy and investor demand could not be much stronger in Seattle. In fact, a lack of development opportunities and public and private investment is seen as the only potential problem from a local market perspective.

One interviewee cited the move of a forest products firm from its longtime suburban campus to Seattle's gritty Pioneer Square, remarking, "Companies are all competing for talent. How are

you going to attract the talent right out of college? The central business district is benefiting from the trend of companies moving from the suburbs into the center city.” Such a reversal of the corporate migration patterns that dominated relocation decades ago, patterns that made suburbanization more than just a residential phenomenon, suggests that the back-to-the-city movement may be with us for a while yet.

In this context, a key question behind the Metro Center plan is, “How will Metro Everett attract the investment, activity, and revitalization that the community has envisioned?” The City’s Downtown Plan and other planning work documents the community’s desire for a city center that is walkable, vibrant, and full of a mix of residential and commercial development types. And a significant amount of development has been realized in Downtown and the Metro Center.

**Figure 1. Population Change in Puget Sound Regional Growth Centers, 2000 - 2010**



Source: Puget Sound Regional Council.

As Figure 1 shows, the population of the Everett “regional growth center” (a PSRC-defined area that includes most of the City-defined Metro Center) grew by nearly 25 percent between 2000 and 2010, which is approximately the average of all regional growth centers tracked by PSRC. While this growth is something to be proud of, Everett’s center has not achieved the pace of growth of some of the region’s booming centers, such as Redmond’s Downtown and Overlake areas.

Several recent reports show the integral connection between urban planning, “place making,” and economic development.<sup>1</sup> City Observatory summarizes the key insights as follows:

- Talent is central to economic development.
- Place making is a key to anchoring talent.
- It’s better to have fewer goals than too many; strategy is about choosing what not to do.

Together, these insights underscore the importance of the Metro Center Plan and similar planning efforts. Attracting talented individuals and companies is now more critical than ever to providing a local economy that creates quality jobs and income for all. Talented individuals and companies also drive downtown and neighborhood real estate development. And these talented individuals and companies are seeking out interesting, exciting, walkable, urban places in greater numbers than previous generations—hence the importance of place making. Therefore, creating and implementing a great Metro Center Plan can be an important economic development tool for Everett.

Figure 2 highlights the importance of talent to regional economies by per capita incomes as a function of college attainment rates. According to City Observatory, “we can explain fully 60 percent of the variation in per capita incomes among metropolitan areas simply by knowing what share of the adult population has a four-year degree. This relationship has grown steadily stronger over the past few decades, and promises to become even more important in the decades ahead.”

**Figure 2. Per Capita Income vs. College Attainment Rate**



<sup>1</sup> See *Remaking Economic Development*, Brookings Institution, and *How should cities approach economic development?* City Observatory.

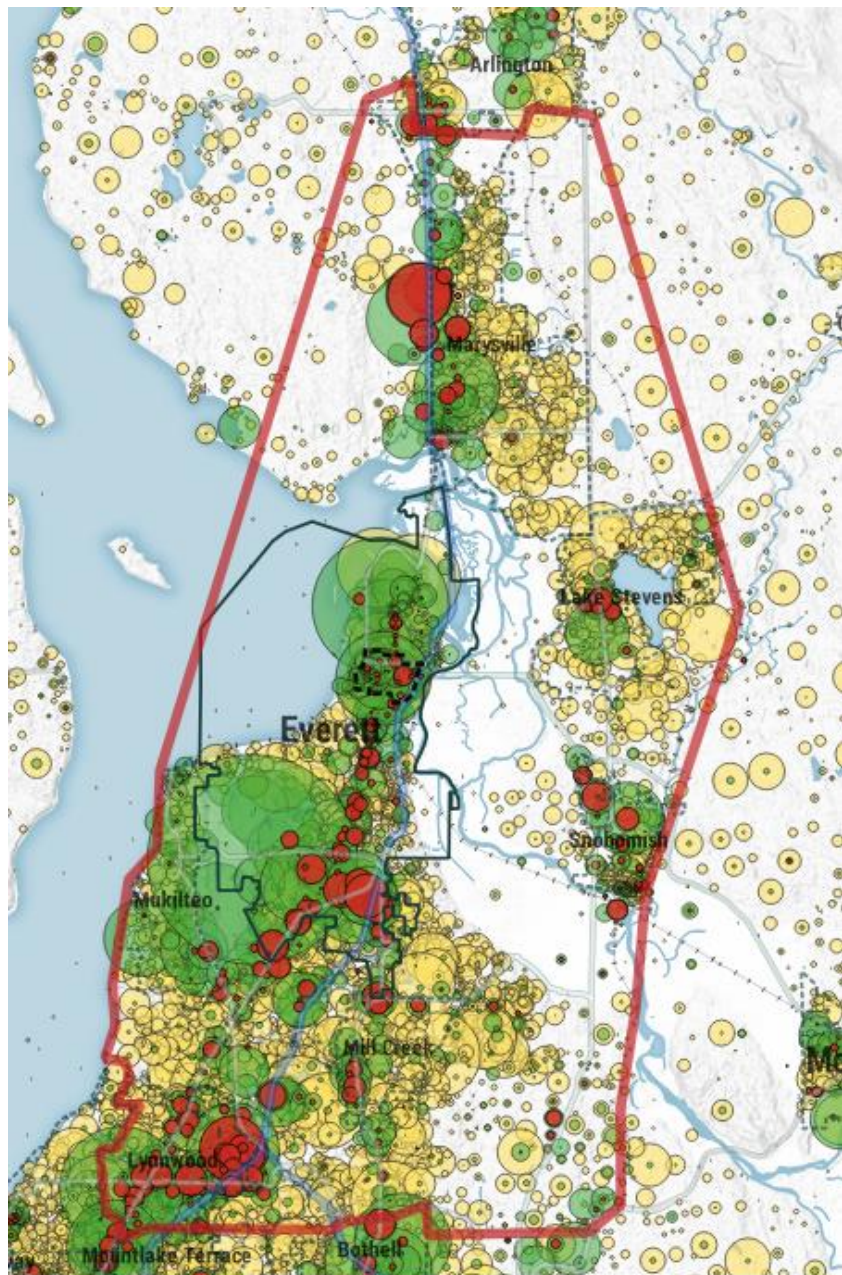
## The Market Area

Figure 3 below shows the City of Everett and surrounding parts of Snohomish County. The bold red outline shows the Metro Center “market area” defined by LCG. Red circles represent retail businesses, yellow circles represent housing, and green circles represent non-retail employment. Circles are scaled such that larger circles represent larger concentrations of retail, housing, and employment.

We use this market area as one point of comparison in this report to characterize the demographic and economic context within which development in the Metro Center will take place. The market area is the area from which the Metro Center will “capture” some amount of future development. The market area is more reflective of nearby demographics than all of Snohomish County (which is much larger), and allows us to expand our scope of thinking beyond just the Everett City boundaries (shown as a black outline below). The market area represents approximately a 20-minute drive to the north and south, and 15 to 20 minutes to the east, depending on traffic.

Figure 3 clearly shows that the Everett Metro Center and the area around Paine Field are major employment centers. The Metro Center is also a mixed use center, since it also includes housing and retail. However, the retail establishments are not as large as those found in centers to the south and north on Interstate 5.

**Figure 3. City of Everett and Metro Center Market Area**

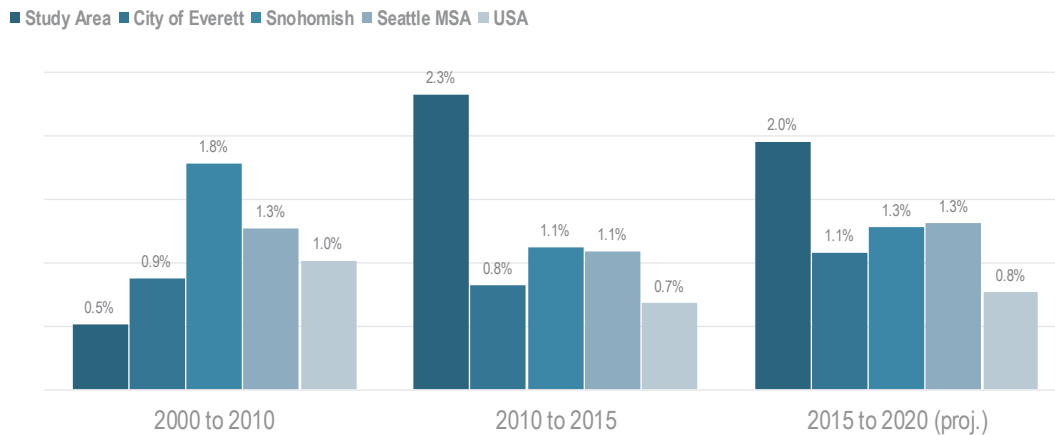


Source: US Census, LEHD program; Leland Consulting Group.

## Demographics

Figure 4 below shows household growth rates in the Metro Center “study area,” and other relevant geographies. Notably, the Metro Center (leftmost column) did not grow quickly between 2000 and 2010. However, it’s growth rate was fastest among all geographies between 2010 and 2015, and is also projected to be fastest between 2015 and 2020. This reflects the popularity of urban living, and of the development that has taken place in the Metro Center in particular. It is also notable that, while the City of Everett’s growth rate is modest, Snohomish County and the Seattle MSA (Metropolitan Statistical Area) are projected to continue to grow rapidly (at 1.3 percent). This reflects the ongoing strength of the regional economy and desirability of the region. The Metro Center will continue to have the opportunity to capture some of this rapid growth.

**Figure 4. Annual Household Growth Rates**



Source: US Census, ESRI Business Analyst Online.

The data above, including projections, is based on the US Census and ESRI Business Analyst Online (BAO). ESRI BAO is one of several major private sector data providers that is often used by developers, tenants, brokers, and others in the real estate industry. ESRI uses US Census and other public data as a base, and then makes projections for the future, and for years in which Census estimates are not available. It is useful for several reasons. First, this is the type of data that real estate professionals often use. Second, it shows data estimates that are not available from the Census. However, it should be viewed as just one among many data sources that may or may not be more accurate than others.

Figure 5 shows the population of the Metro Center study area by age group, along with other relevant geographies. Figure 5 shows that there is a greater concentration of young residents—particularly in the 25 to 34 age group, and also in the 15 to 24 and 35 to 44 age groups—than in other areas such as the City, County, and metro region. This concentration of young residents is typical of downtowns, and is a positive sign for Everett: young people are likely seeking out the employment, educational, and cultural opportunities available in the Metro Center. Young professionals are a critical component of Everett’s future economy, and the City should continue to seek to attract and retain them.

**Figure 5. Population by Age Group**

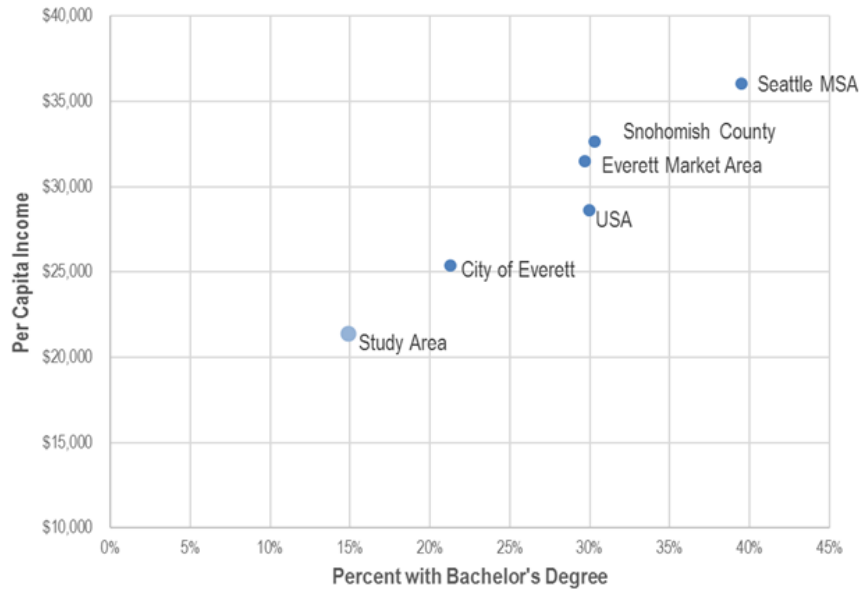
	Study Area	City of Everett	Snohomish	Seattle MSA	USA
<b>0 - 4</b>	4%	7%	6%	6%	6%
<b>5 - 9</b>	3%	7%	7%	6%	6%
<b>10 - 14</b>	2%	6%	7%	6%	7%
<b>15 - 24</b>	16%	14%	13%	13%	14%
<b>25 - 34</b>	21%	17%	14%	15%	14%
<b>35 - 44</b>	15%	13%	14%	14%	13%
<b>45 - 54</b>	15%	13%	15%	14%	14%
<b>55 - 64</b>	12%	12%	13%	13%	13%
<b>65 - 74</b>	7%	7%	8%	8%	9%
<b>75 - 84</b>	3%	3%	3%	3%	4%
<b>85 +</b>	1%	2%	2%	2%	2%

*Source: US Census, ESRI Business Analyst Online.*

Figure 6 uses the matrix developed by City Observatory to plot the Metro Center study area along with other relevant geographies. As described above, there is a strong relationship between education and incomes, with high levels of education within a city or region driving income. Education and incomes in the study area are lower than those in the City, market area, County, and metro region. While this is obviously not a strength, the good news is that the surrounding areas—including the market area, County, and metro region—have high levels of education and incomes. Therefore, the Metro Area has the opportunity to capture educated individuals and talented businesses from this pool, and use these resources to drive greater levels of local prosperity. This will not necessarily be easy, but the opportunity certainly exists, as individuals and businesses seek out walkable urban environments like the Metro Center.



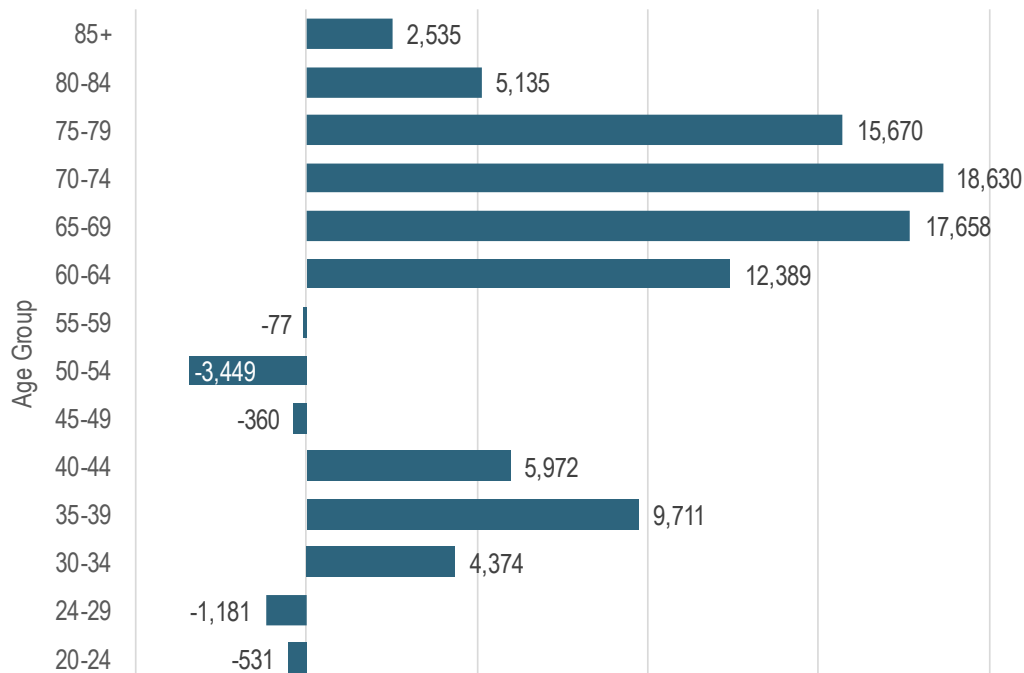
**Figure 6. Income by Educational Attainment**



Source: US Census, ESRI Business Analyst Online.

Figure 7 below highlights several demographic trends that will be of critical importance to the study area, as well as most other parts of the country, in the coming decades. The largest demographic trend visible in Figure 7 is the “silver tsunami”—the massive growth in the number of Snohomish County residents age 60 and above. The greatest amount of population growth will take place in residents between the ages of 60 and 79.

**Figure 7. Projected Snohomish Population Growth by Age (2015 to 2025)**



Source: Washington State Office of Financial Management; and Leland Consulting Group

This pattern is also expected in most other parts of the country. This means that both dense areas such as the Metro Center, and the City of Everett as a whole, will need to think about how to attract and accommodate this population. Senior housing, and services that support seniors, will be in demand.

Growth is weak to negative in the 50 to 59 age groups. These groups are less likely to live in downtown areas, since they will be in prime child-rearing years.

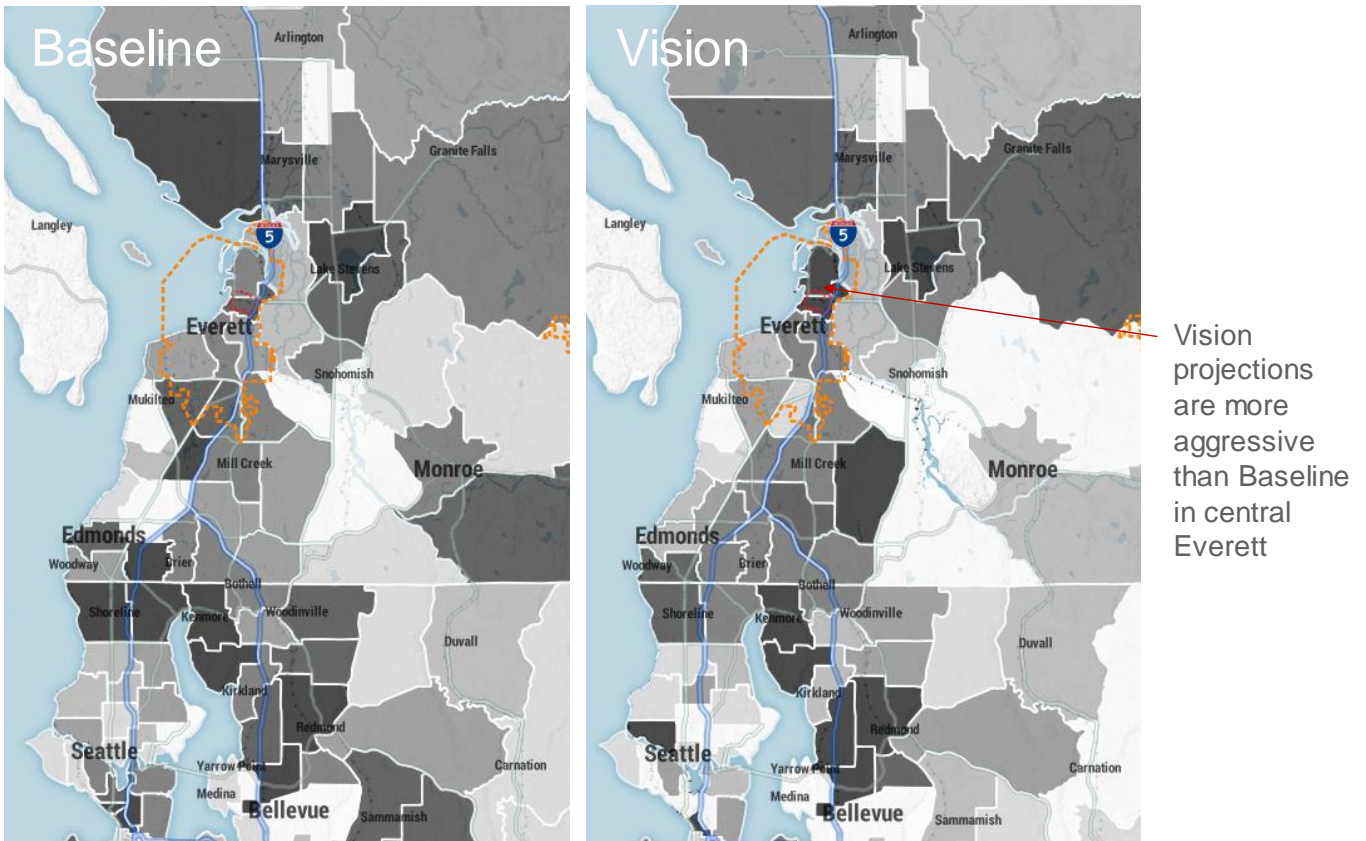
The number of young adult residents (age 20 to 34) in the traditional core years of urban living, will continue to grow, but less dramatically than in the last decade. This is because the Millennials, a large demographic cohort, will move out of their 20s and into their 30s and 40s, and will likely begin to have families and seek larger housing options.



## Housing

The Puget Sound Regional Council (PSRC), in collaboration with the region's cities and counties, develops the 20-year population projections shown below. The baseline projection reflects the likely outcome if existing trends continue, while the vision projection represents aspirations, such as the desire that the Everett Metro Center attract significantly more housing, in order to achieve its vision of a vibrant center, and to meet regional growth goals.

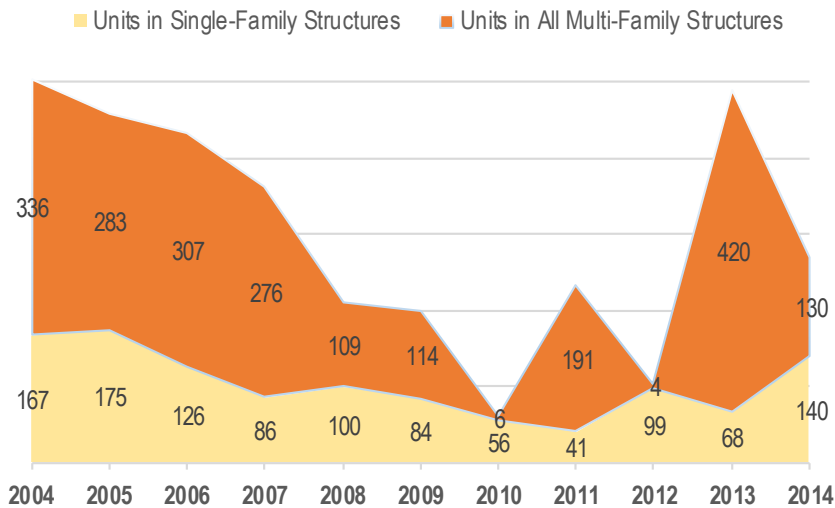
**Figure 8. Baseline and Vision Population Growth Projections, PSRC**



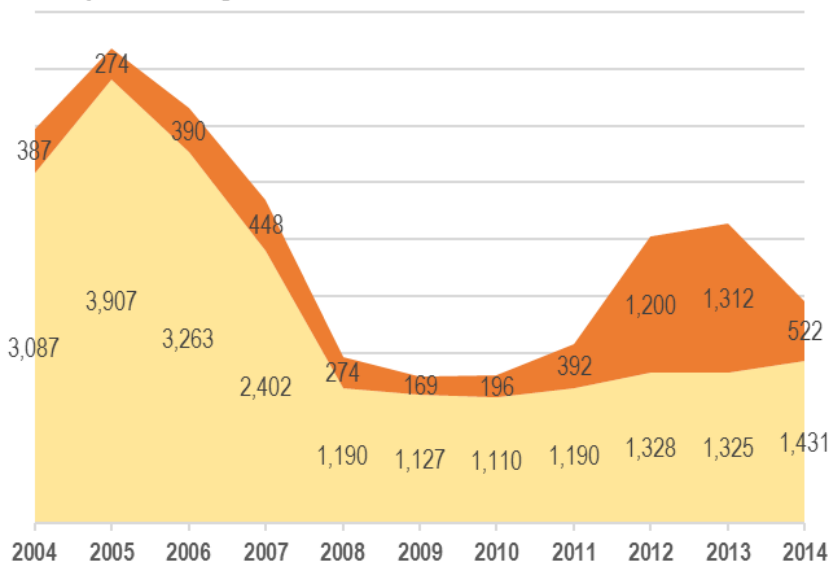
Source: PSRC, Leland Consulting Group.

The figures below show single family and multifamily permit trends in the City of Everett and unincorporated Snohomish County. In both areas, there has been a recent boom in multifamily development, consistent with regional and national trends. In the City, most or all of this multifamily development has been in the Metro Center. Single family development will continue to rebound in less densely populated parts of the County.

**Figure 9. City of Everett Building Permit Trends**



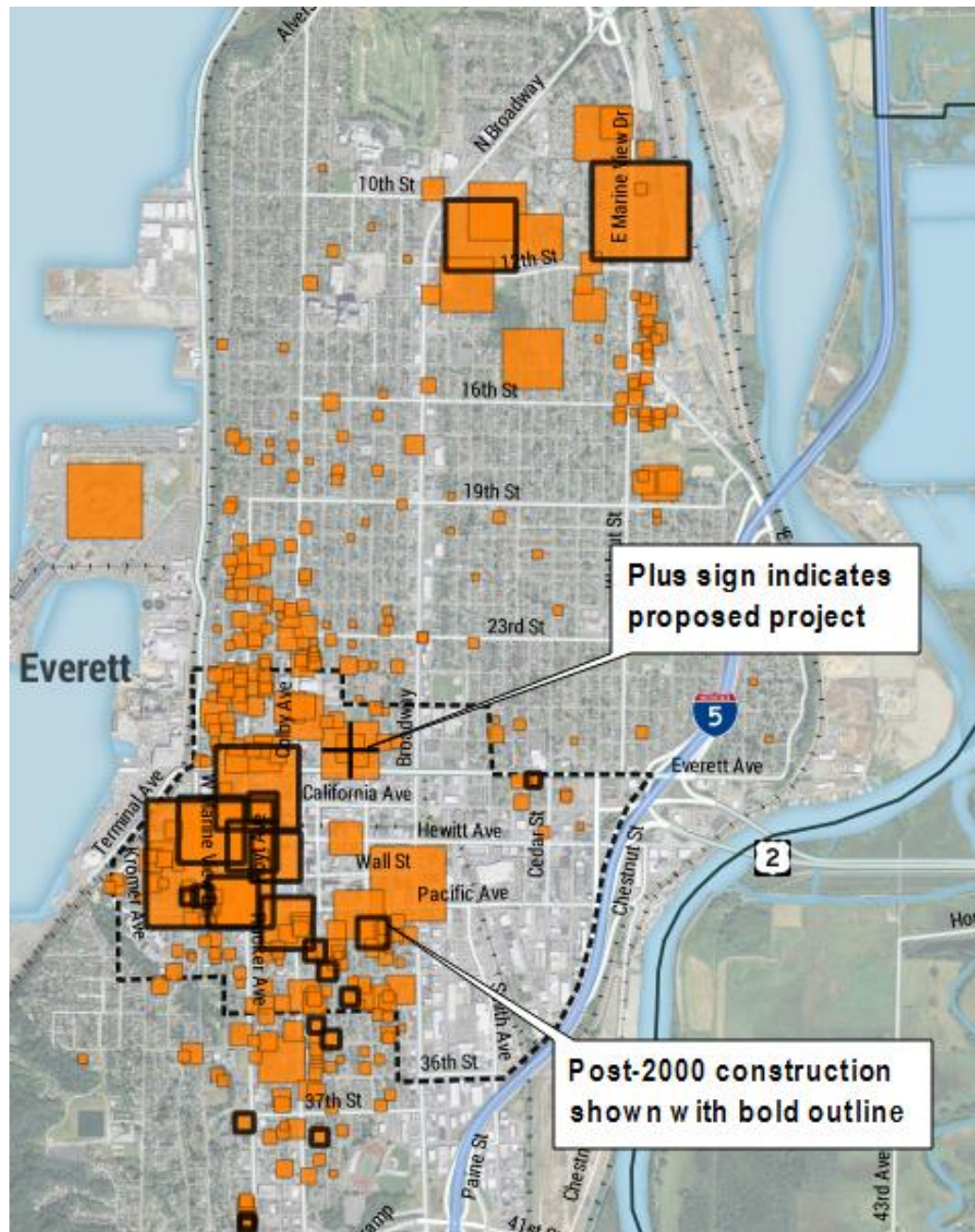
**Figure 10. Unincorporated Snohomish County Building Permit Trends**



Source: US Census/HUD SOCDS; and Leland Consulting Group

The map below shows the location of multifamily rental projects in the City of Everett. Those built since 2000 are shown with a black outline; proposed projects are shown with a plus sign. Most recent development has taken place within the west side of the Metro Center, and therefore, Figure 11 highlights the popularity, desirability, and market demand for urban living. Two large rent-restricted affordable housing projects—The Meadows and The Vintage at Everett—have been built north of the study area, near Providence Medical Center. Other, smaller apartment projects have been built elsewhere in the Metro Center and to the south.

**Figure 11. Multifamily Rental Projects, City of Everett.**

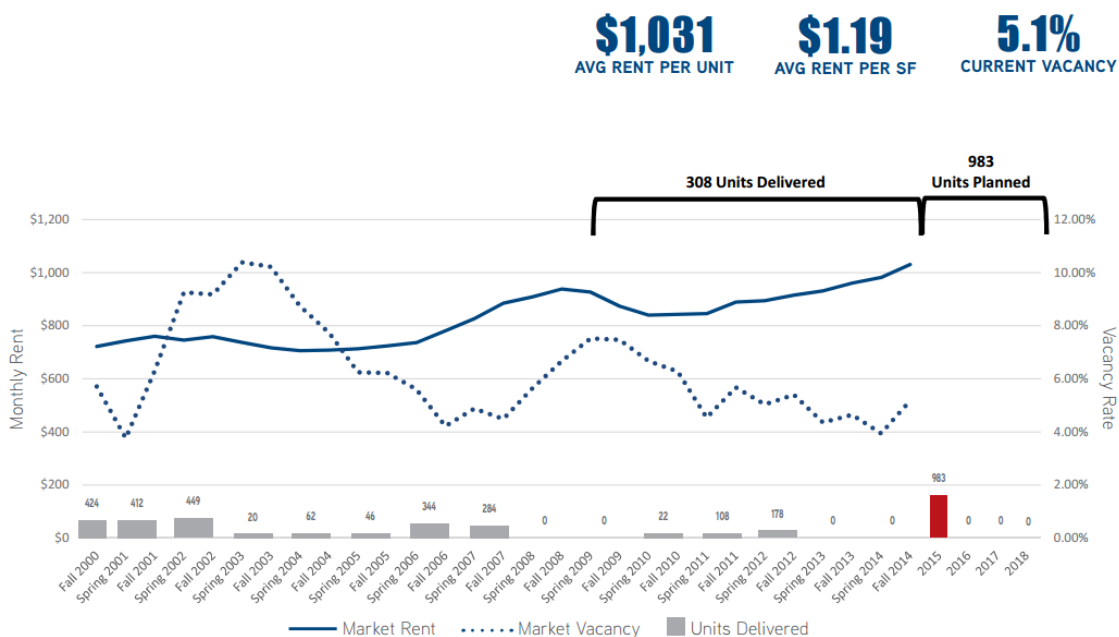


Source: CoStar, Leland Consulting Group.

Figure 12 summarizes the North Snohomish County apartment market. The spike in apartment development (983 units planned in 2015) is shown in the lower right. Approximately one third of these units (322) are located in two major Metro Center projects, Potala Place and the Aero Apartments.

Rent per square foot is one of the key metrics that developers look at when considering project feasibility. The average rent across all of North Snohomish County, shown below, is \$1.19 per square foot. By contrast, average rents in Urban King County is \$2.37 per square foot. The average rent for new projects such as Potala Place in the Metro Center is estimated at \$2.00 per square foot (though rents for smaller units may be as high as \$2.40). Because of sharply increasing construction costs (see Figure 14), average rents must be at least \$2.50 to \$3.00 in order to justify the cost of construction, land, permitting, etc. This is a primary reason that new development has slowed in the Metro Center in 2016.

**Figure 12. North Snohomish County Apartment Market Summary**



Source: Dupre + Scott, CBRE.

**Figure 13. Recent Metro Center Apartment Projects**

Potala Place Everett, 220 units



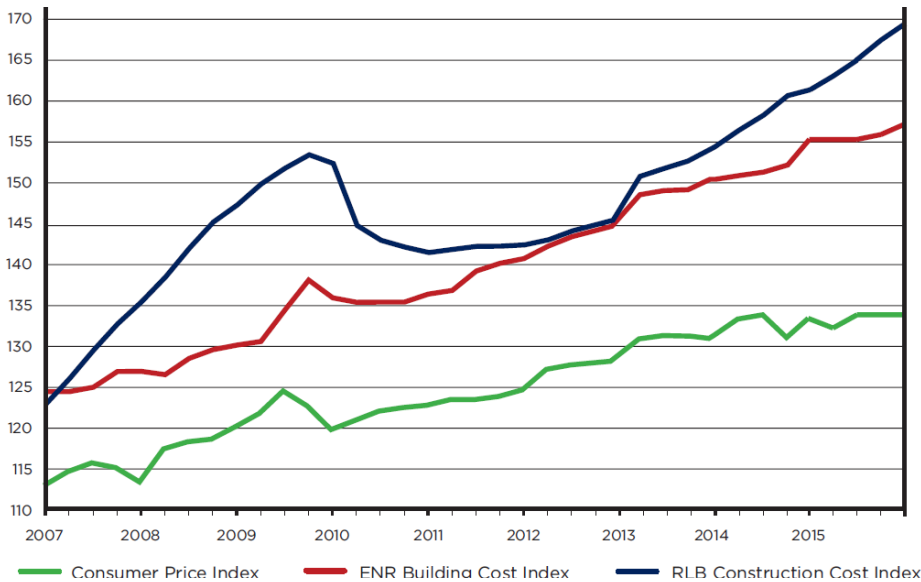
Aero Apartments, 102 units





Figure 14 shows Rider Levett Bucknall's (RLB) construction cost index, along with the ENR raw materials index, and Consumer Price Index (CPI). According to RLB, their index shows an increase of 37.4 percent over the 2007 to 2016 time period, compared to 17.5 and 25.6 percent increases for CPI and materials, respectively. In the short to medium term, rapidly increasing construction costs represent a major challenge to urban housing, office, and retail development. As the current development boom slows, construction costs should moderate somewhat, and more projects should become feasible.

**Figure 14. RLB Construction Cost Index**



Sources: RLB, Engineering News-Record, US Bureau of Labor Statistics.

Figure 15 shows a national projection of demand for multifamily housing. Demand (new households) is shown in yellow, and is shown peaking in 2015, and decreasing somewhat thereafter until 2019. Supply (new development) is shown in green and follows a similar trend. Beyond 2020, demand for multifamily housing is likely to stabilize, and potentially increase again, as boomers age and look for low-maintenance, urban living options.

**Figure 15. National Multifamily Housing Demand and Supply**

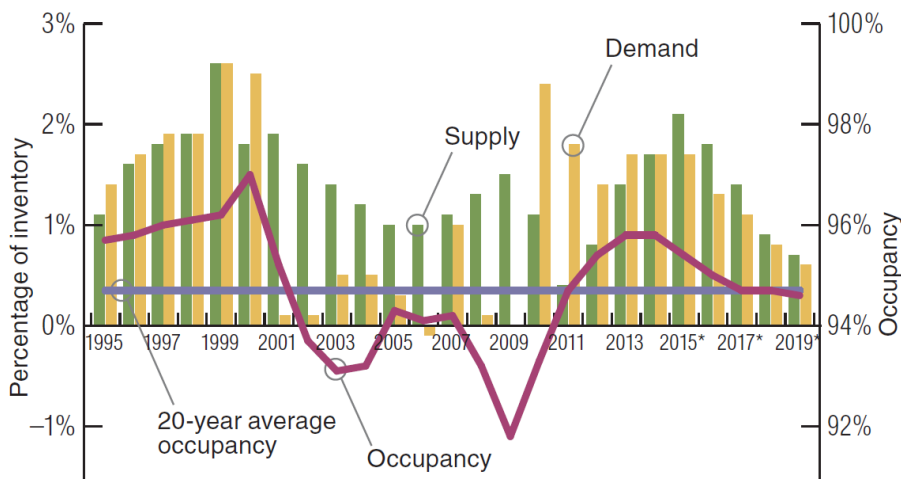


Figure 16 shows the 10-year demand for housing in the market area (see Figure 3 for a map of the market area). LCG typically generates 10-year demand estimates. 20-year estimates are, by nature, more speculative, since the economic and demographic conditions in place more than 10 years from now are difficult to project. In order to produce a 20-year demand forecast, LCG recommends doubling the 10-year forecast, and that methodology is used in this report. In the next decade, approximately 27,900 dwelling units will be needed within the market area, with the greatest demand in the \$50,000 to \$75,000, and \$100,000 to \$150,000 income groups.

**Figure 16. 10-Year Market Area Residential Demand by Income Category**

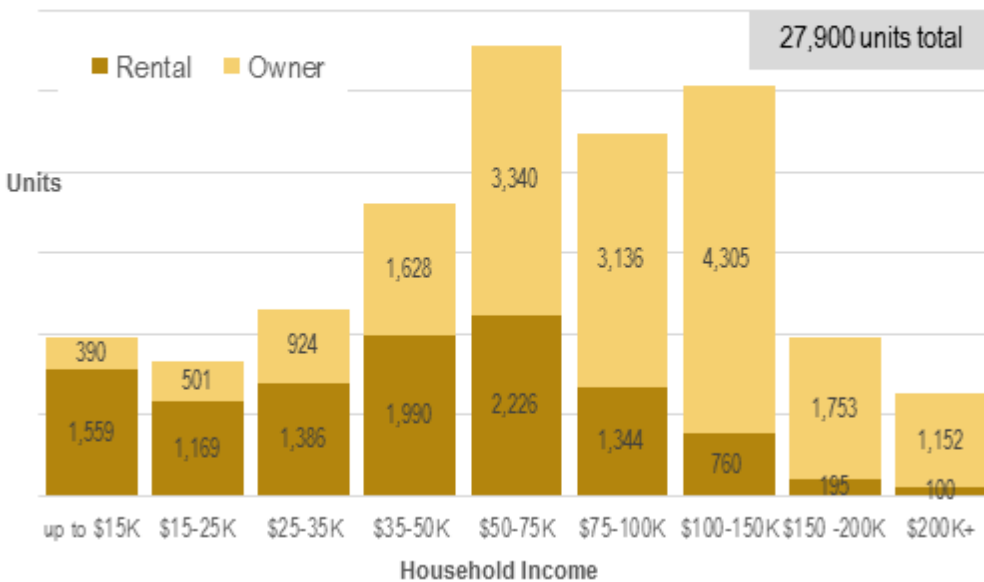


Figure 17 shows low and high estimates for residential demand in the Metro Center, based on historical development patterns, growth in the City, County, and market area (shown above), and the Metro Center's historical and projected future ability to "capture" growth in the market area. LCG's assessment is that there is demand for between 830 and 1,430 housing units in the Metro Center over the next decade, and twice that number (1,660 and 2,860) over a 20-year period.

**Figure 17. Metro Center Residential Demand**

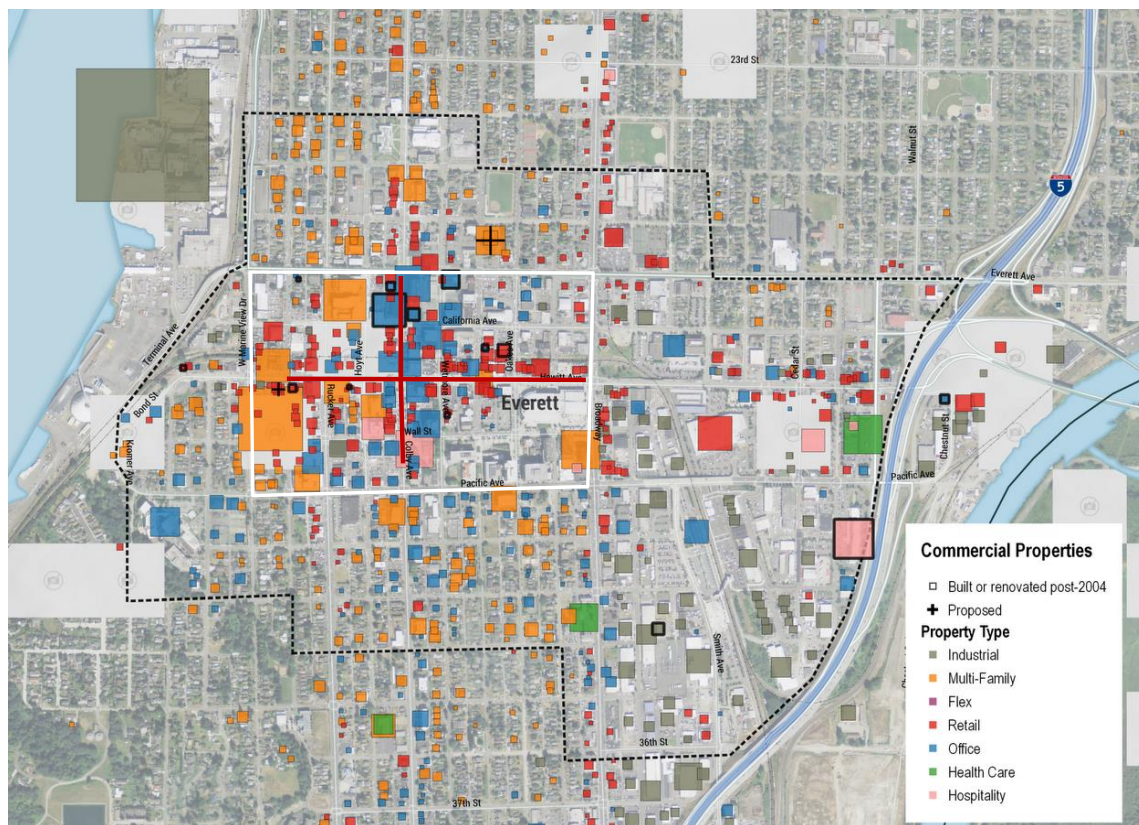
	Market Area Unit Demand	Attainable Study Area Capture Rates	10-year Study Area Absorption (low)	10-year Study Area Absorption (high)
Single Family Detached	14,000	0 to 0%	0	0
Attached Ownership (e.g., townhome or condo)	2,800	7 to 12%	190	330
Rental Apartments	9,200	7 to 12%	640	1,100
<b>Total Units</b>	<b>26,000</b>	<b>3 to 6%</b>	<b>830</b>	<b>1,430</b>

## Location of Development in the Metro Center

Figure 18 below shows the location of a variety of development types in the Metro Center and adjacent neighborhoods, including multifamily, office, retail, industrial, flex, healthcare, and hospitality (lodging). (Flex is space that includes some characteristics of industrial and office space.)

The white rectangle shows the area highlighted in the 2006 Everett Downtown Plan, and the key “retail streets” of Hewitt and Colby Avenues are shown in red. The map is based on the CoStar commercial real estate database rather than City data, and therefore both owner-occupied homes and public building such as the County campus are not shown.

**Figure 18. Location of Multifamily, Office, Retail, and other Development Types**



Source: CoStar, Leland Consulting Group.

As Figure 18 shows, Downtown features the greatest concentration of multifamily, office, and retail development, and the most of the larger scale multifamily and office projects. There are also two hotels Downtown. Downtown features the greatest number of projects built or renovated after 2004. There is an office space cluster or spine along Colby Avenue.

It is no coincidence that most development has taken place Downtown, since the area has a number of special qualities:

- An established critical mass of employment, including historic private office space, and City, County, and other public agencies;
- High quality transportation infrastructure including streets and transit service;



- Many pedestrian-friendly streets, that include sidewalks, good street crossings, and street trees;
- Established restaurants and retail stores;
- Historic buildings that provide character;
- Great views of Possession Sound and the Olympic Peninsula; and,
- Afternoon sun and sunset exposure.

Developers interviewed as a part of this project noted these and other elements as key reasons that new residents, and office and retail tenants, would continue to see Downtown as the premier location in central Everett.

Near Everett Station, there are numerous industrial properties, one office property (the publicly-owned Everett Station). There are also large retail, hospitality, and healthcare sites; however, they are not clustered in close proximity like the uses in Downtown. There is no multifamily development east of Broadway or within a quarter mile of Everett Station.

Broadway is a commercial corridor, with relatively small retail buildings being the most prevalent land use. To the west of Broadway, multifamily and office uses are the most prevalent. To the east of Broadway, the most prevalent land use is industrial, though there are large-lot retail, lodging, and healthcare uses as well.

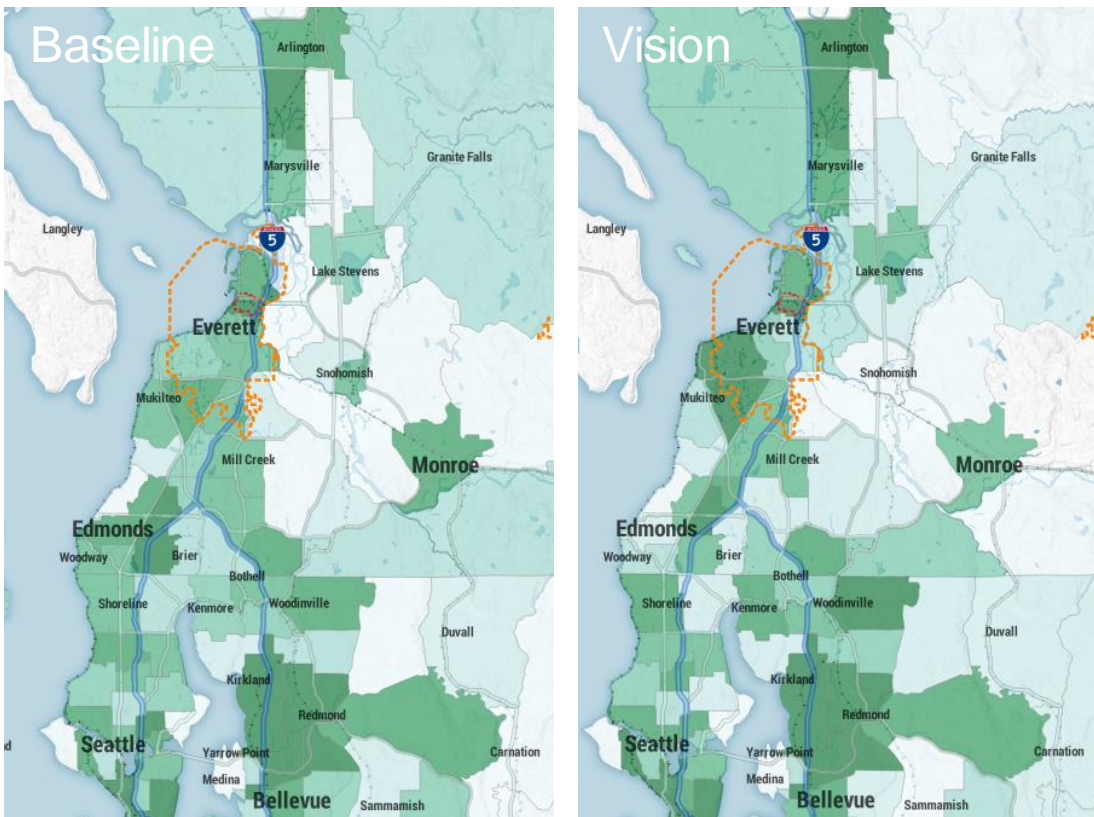
An interesting historical retail commercial node is on Hewitt Avenue, towards the eastern edge of the Metro Center, between Fulton and Maple Streets, where there are a handful of early 20<sup>th</sup> century buildings occupied by local restaurants, retailers, and other businesses.

## Office and Employment Development

Figure 19 shows the PSRC’s baseline and vision growth projections for employment in the north metro region. More intense green colors show greater concentrations of employment. The difference between the *employment* baseline and vision is less dramatic than that seen in the *population* projection, and therefore, we interpret a greater degree of confidence about how much additional employment is expected for the north metro region. One difference between the vision and baseline projections is that the vision projection shows significantly more employment in the Paine Field area.

PSRC’s projection is consistent with the metro region’s strong economic fundamentals: high-growth industry clusters such as technology, trade, biotech, aerospace and aeronautics, technical and professional fields, and manufacturing among others; high education levels; and the region’s desirability, natural beauty, and related population growth.

**Figure 19. Employment Growth Projections, Puget Sound Regional Council**



Source: Puget Sound Regional Council.

Figure 20 shows key office space metrics for the Metro Center (“study area”) and other relevant areas. This shows that the Metro Center contains approximately 2.2 million square feet of office space, or 21 percent of all office space within the market area (see Figure 3 for market area map), and 36 percent of the office space in the City of Everett. The Metro Center is clearly center for white collar, office employment. The vacancy rate in the Metro Center (4.5 percent) is lower than that in the market area (7.9 percent). Approximately 200,000 square feet of office space has been added to the Metro Center in the last decade; most of this space has been added via major renovation projects rather than new construction.

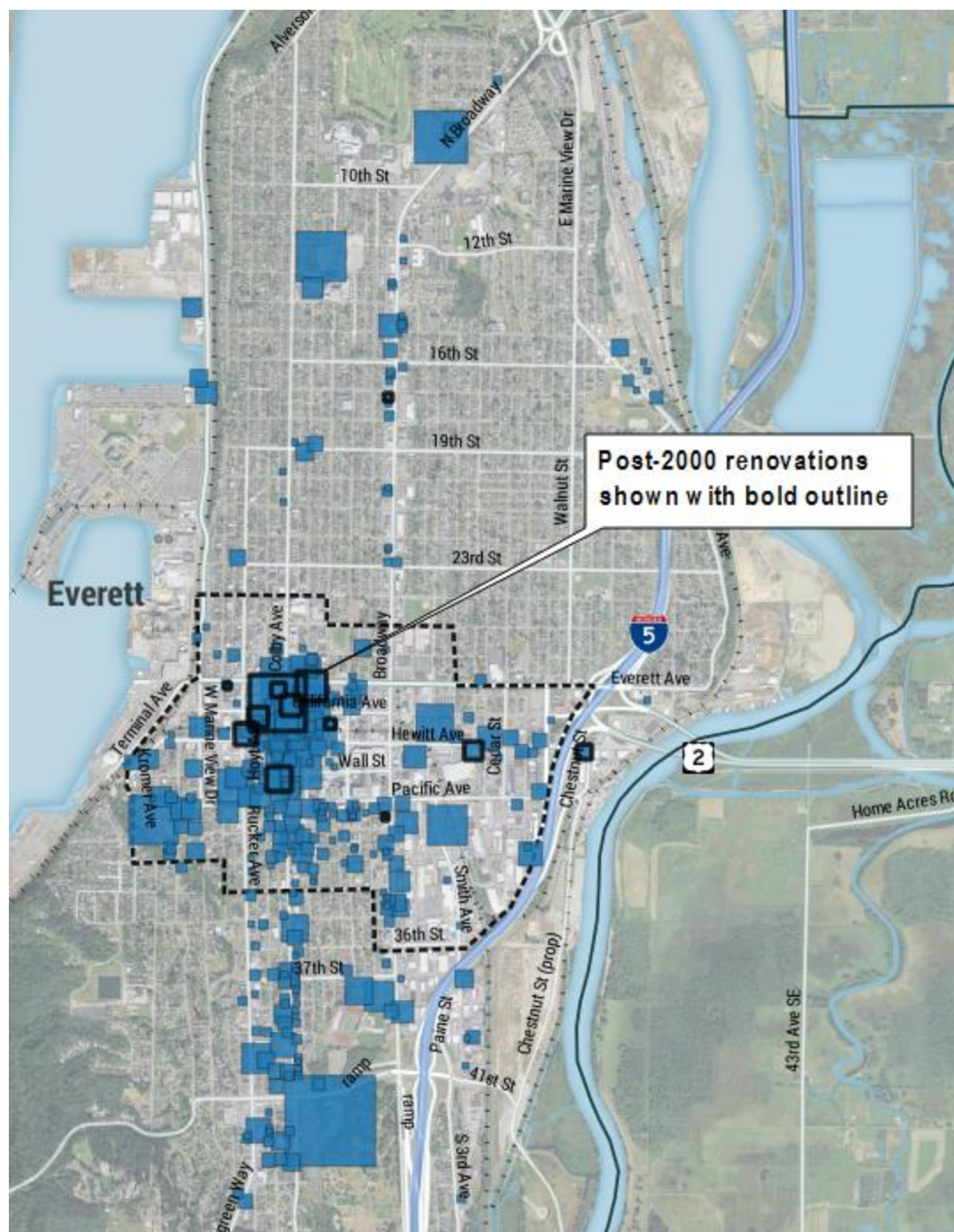
**Figure 20. Key Office Space Metrics for the Metro Center Study Area, City, and Market Area**

	<b>Total sf</b>	<b>Vacant sf</b>	<b>Post-2004 sf (built or renovated)</b>
<b>Study Area</b>	2,214,161	99,125	202,508
<b>Everett</b>	6,080,616	394,075	981,915
<b>Market Area</b>	10,593,786	837,963	1,721,917
<b>Study Area as % of Market</b>	21%	12%	12%
<b>Everett as % of Market</b>	57%	47%	57%
<b>Study Area as % of Everett</b>	36%	25%	21%

Source: CoStar, Leland Consulting Group.

Figure 21 shows the location of office development in Everett, including the Metro Center. As described above, the greatest concentration of office is in the Downtown area, centered near the intersection of Colby and Hewitt. Other large office buildings are dispersed in other parts of the City, including at the Providence medical campus, Everett Community College, and near the 41<sup>st</sup> Street / Interstate 5 interchange.

Figure 21. Office Employment in Everett



Source: CoStar, Leland Consulting Group.

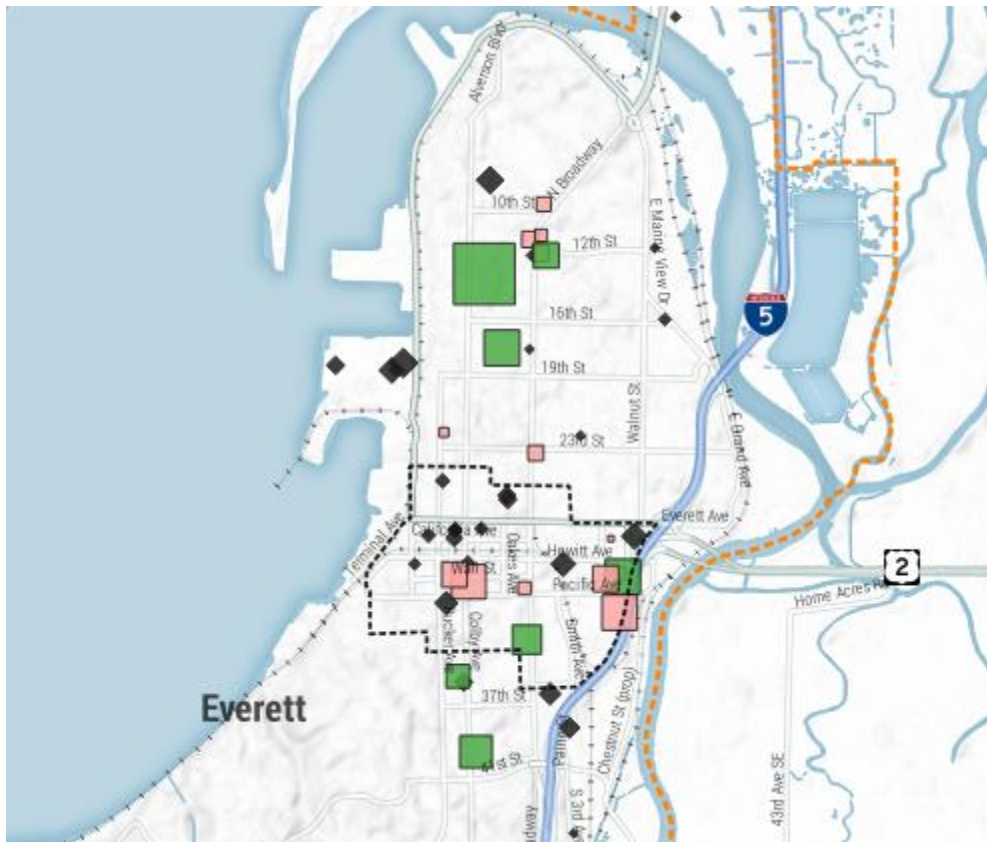


Figure 22 shows the location of medical office buildings and other leasable healthcare properties (green), hospitality (pink), and specialty (grey) development in Everett.

Note that the healthcare properties shown include only those that can be leased by private and non-profit practitioners; neither Seattle Children's Hospital, located at the west end of the Metro Center, nor Providence Medical Center, located a mile north of the Metro Center, are shown. Although the City's largest healthcare provider and employer, Providence Medical Center, is located north of the Metro Center, they are nonetheless valuable assets, and will likely create demand, particularly for housing, in and near the Metro Center.

There are four hotels located in the Metro Center, which is clearly a center for lodging, likely driven by business travel.

**Figure 22. Healthcare, Hospitality, and Specialty Employment in Everett**



Source: CoStar, Leland Consulting Group.

Figure 23 shows the average asking or “quoted” office lease rates proposed by office landlords in various Puget Sound submarkets at year-end 2015. The average Everett CBD asking rate is \$19.08, well below the regional average of \$30.66. The Everett CBD market area is a CoStar market area designation, and corresponds approximately with the Metro Center. It should be noted that these are *averages*, so there may be highly desirable “Class A” office properties that achieve leases well above the average, and Class B and C properties that charge less. Nonetheless, current rents provide a useful yardstick to measure current office demand.

**Figure 23. Everett CBD and Puget Sound Office Market Trends, Year End 2015**

Submarket	Quoted Rates	YTD Net Absorption
Ballard/U Dist	\$27.67	49,730
Bellevue CBD	\$42.11	(4,226)
Belltown/Denny Regra.	\$29.55	1,238,706
Bothell/Kenmore	\$25.23	(169,292)
Capitol Hill/Central.	\$37.13	84,245
Coal Creek/Issaquah	\$31.17	(184,540)
Edmonds/Lynnwood	\$22.83	120,188
<b>Everett CBD</b>	<b>\$ 19.08</b>	<b>39,956</b>
Federal Way/Auburn	\$ 19.57	97,504
Kent Valley	\$22.41	127,147
Kirkland	\$29.25	37,900
Lake Union	\$40.61	1,183,291
Mercer Island	\$33.62	(2,577)
Mill Creek/Woodinvil.	\$28.47	180
N Snohomish County	\$ 17.10	(3,296)
Northgate/N Seattle	\$23.89	33,415
Pioneer Sq/Waterfront.	\$34.96	228,120
Queen Anne/Magnolia	\$26.29	101,153
Redmond	\$26.28	122,666
S Everett/Harbor Poi.	\$21.60	(19,817)
S Seattle	\$30.87	33,344
S Snohomish County	\$ 19.93	18,647
Seatac/Burien	\$21.35	29,635
Seattle CBD	\$40.10	617,047
Suburban Bellevue	\$31.29	118,165
Tacoma CBD	\$ 19.65	62,812
Tacoma Suburban	\$21.37	19,792
Univ. Place/Lakewood	\$ 18.95	27,617
<b>Average</b>	<b>\$ 30.66</b>	<b>4,441,245</b>

Net absorption (new space leased, less tenant departures from the market) in the Everett CBD for 2015 was nearly 40,000 square feet, a positive sign for the market, but modest compared to many of the top performing submarkets, which posted more than one million square feet of absorption.

There is a strong correlation between higher rents and new office development and absorption: Rents are high in hot office markets such as South Lake Union, and developers respond to that demand by

building additional office space. Generally, rents in the mid \$30 per square foot and above are required in order to make new, urban, Class A office space financially feasible for developers; however, this threshold can change depending on variables such as construction costs, interest from anchor/credit office tenants, parking, and capitalization rates.

Figure 24 shows several recent office renovations in the Everett Metro Center. Since rents are unlikely to justify new construction in the near term, renovations are one place where new office space can be provided to meet demand. The American West Bank Tower at left is the largest office renovation to be completed in the Metro Center in many decades; the building is approximately 126,000 square feet in size, was built in 1925, and renovated in 2006. The Pacifica Regency Building was also renovated (2008), and is similar to many relatively low scale, historic or mid-20<sup>th</sup> century buildings that could be renovated in the Metro Center. Renovations are not always less expensive than new construction—structural, seismic, health, and building systems costs can be significant—however, cost-effective renovations are a likely place for near-term office demand to be served. Renovations or adaptive reuse can also be a great fit for the new generation of “creative” office space that is popular with fast-growing, young technology and professional service firms throughout the Pacific Northwest.

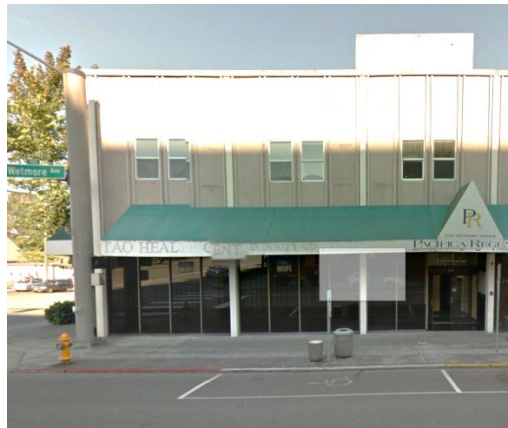
**Figure 24. Recent Everett Office Renovations**

American West Bank Tower



Source: [officespace.com](http://officespace.com)

Pacifica Regency Building



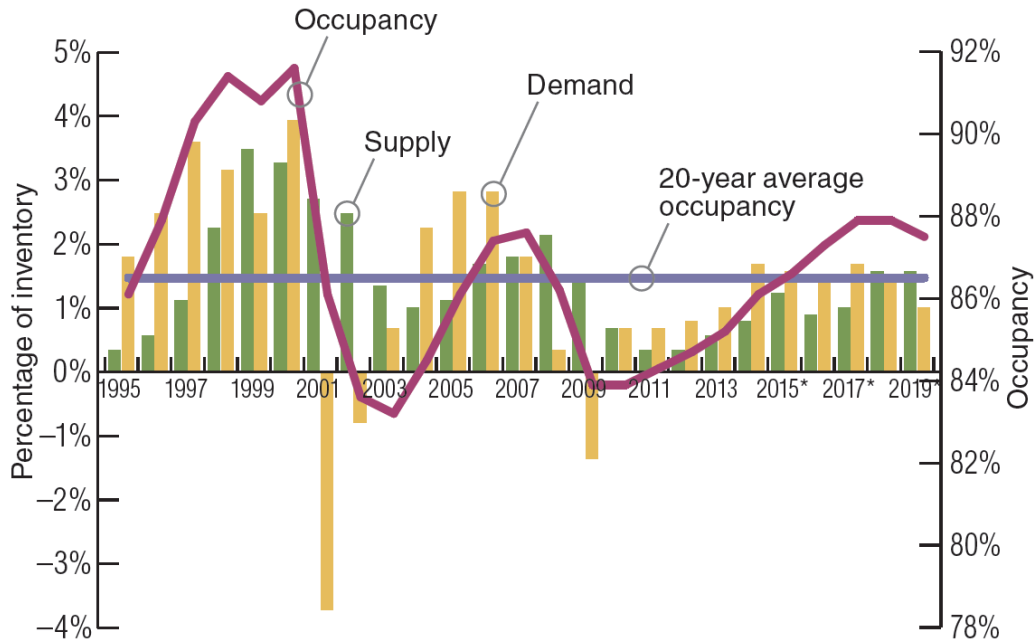
**Figure 25. Adaptive Reuse and Creative Office Space**





Figure 26 shows a national projection of demand for office development. Demand (created by new and growing businesses) is shown in yellow, and has been growing following the great recession, and continuing to grow between 2016 and 2018. New development (supply, in green below) is expected to respond in the near term. Therefore, with continuing economic strength, generally low vacancy rates, and the popularity of urban environments, the next few years should be good for office development/renovations in the Metro Center and throughout the Puget Sound region.

**Figure 26. National Office Housing Demand and Supply**



Source: Urban Land Institute, CBRE Econometric Advisors.

Figure 27 shows LCG's 10-year office demand forecast for the Metro Center. Over the next decade, it is reasonable to estimate that between 157,000 and 236,000 additional square feet of office space will be provided in the area, either through renovation or new development. The range represents the difference between a conservative and more aggressive "attainable" forecast.

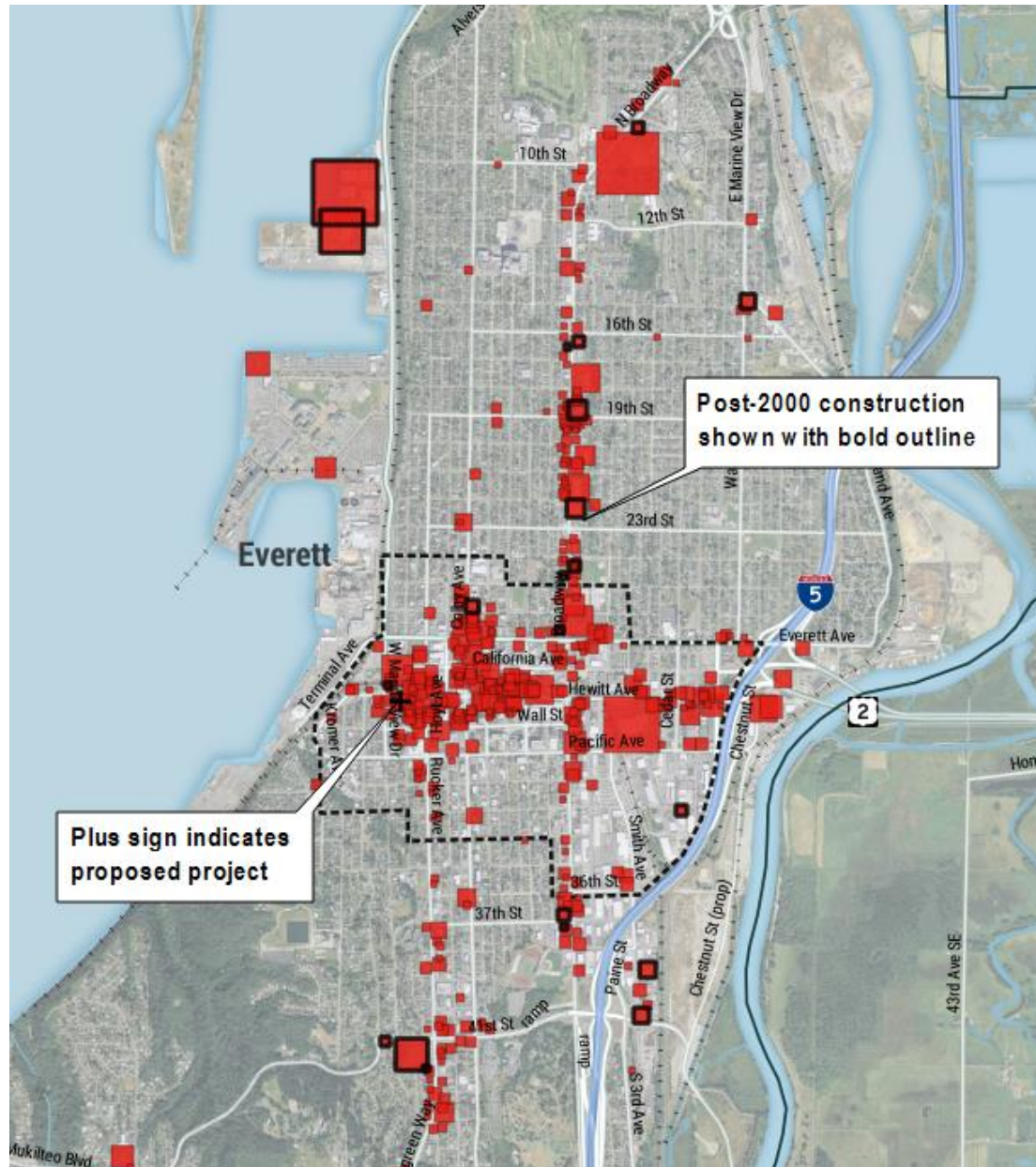
**Figure 27. 10-Year Metro Center Office Demand Forecast**

Study Area Capture Rate	
Conservative	10%
Attainable	15%
Study Area Development (SF)	
Conservative	157,000
Attainable	236,000

## Retail

Figure 28 below shows the location of retail services in Everett; retail built or renovated after 2000 is shown with a bold outline. As described above, there is a concentration of retail, particularly in Downtown Everett, and also the Metro Center. Downtown retail buildings tend to range from small to medium size, while large-format retail is located elsewhere, including Broadway, Hewitt, and outside of the study area.

**Figure 28. Retail Locations in Everett**



Source: CoStar, Leland Consulting Group.

Figure 29 shows LCG’s forecast for the amount of retail space that will be needed in the market area over the next decade. Approximately 4.2 million square feet of space will be needed in total, with the greatest amount of space required in the “other” (non-traditional retail space such as medical office, banks, and cinema space); food and beverage (largely grocery stores); and general merchandise (including stores such as Target that offer a wide variety of mostly hard goods). Many other types of retail will also be needed. There are multiple components of retail demand, including that derived from household growth, “leakage recapture” (wherein retail purchases currently made outside of the market area return to the market area), and the replacement of old and obsolete space. By far the largest component of demand is from household growth: as summarized above, the number of households in the market area is expected to grow at about 1.3 percent annually. Over ten years, the number of households will increase by more than 26,000, or about 14 percent above the current number. This, in turn, will drive a comparable increase in retail demand and development.

**Figure 29. Retail Demand in Market Area, 10-year forecast**

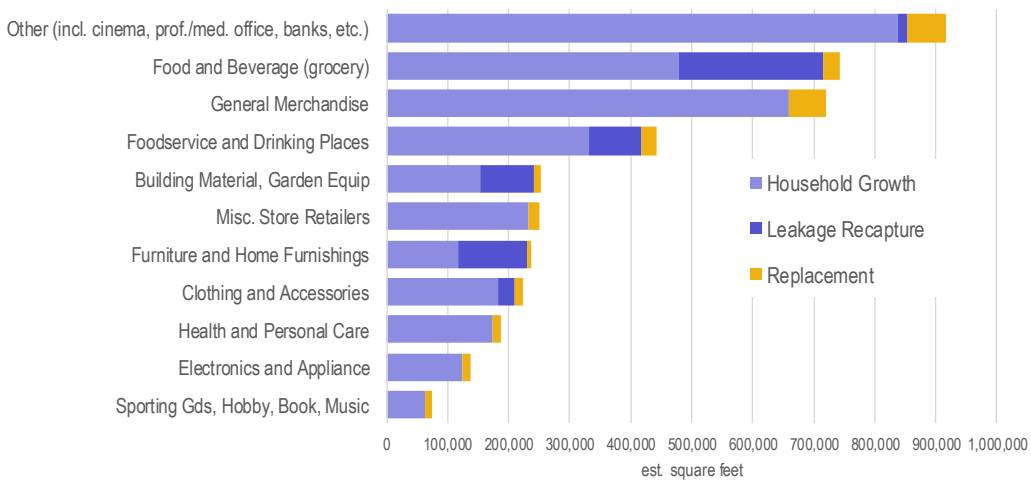


Figure 30 shows LCG’s forecast for the amount of retail space that will be needed in the Metro Center study area over the next decade. LCG projects demand of between 170,000 and 300,000 square feet (or between 340,000 and 600,000 over 20 years). The precise amount will depend on the specifics such as the amount of residential and employment growth, retail trends, construction costs, and other factors.

**Figure 30. Retail Demand in Metro Center study area, 10-year forecast**

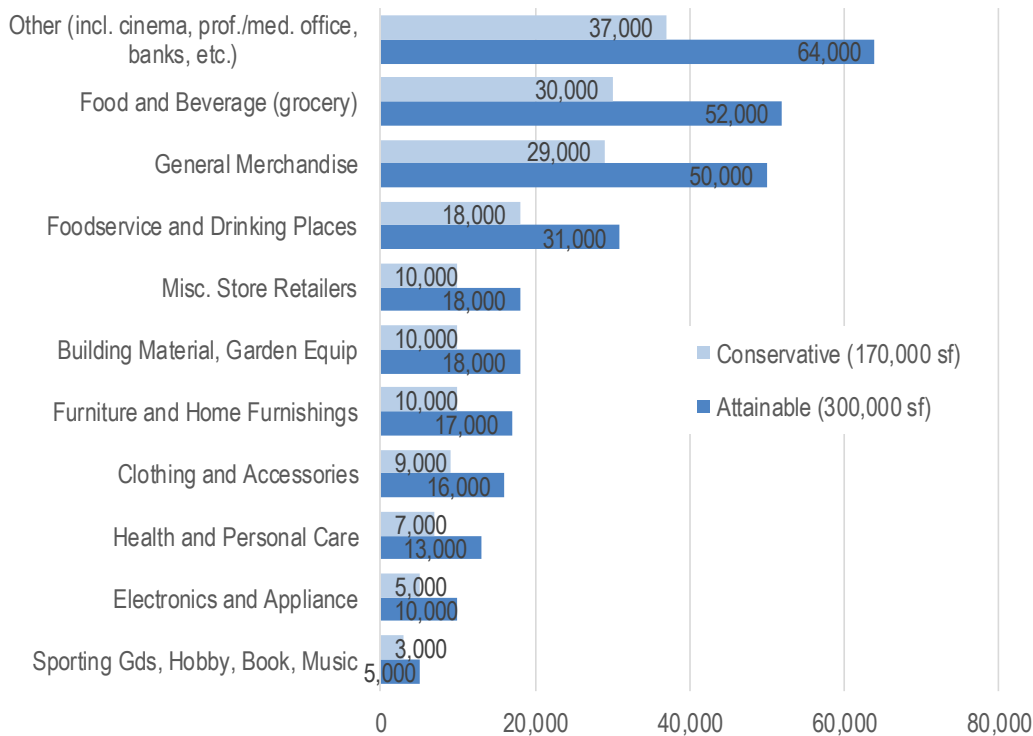


Figure 31 shows two retail projects that were completed recently in the Metro Center, and which are representative of the types of retail projects likely in the near future. The first is ground floor retail space at the Everett Artspace Lofts, currently occupied by an art gallery and educational space. A considerable amount of retail demand in the Metro Center can be accommodated via ground floor retail spaces in mixed use buildings. The second project pictured is the adaptive reuse of a historic building located just north of the Comcast Arena. The 18,000 square foot building was built in 1920 and renovated in 2008.

### Figure 31. Recent Metro Center Retail projects

Ground-Floor Retail Space at Artspace Lofts



Adaptive reuse: 2820 Oakes Avenue



With some exceptions, large format retail (e.g., single retail tenants that require more than 40,000 square feet) is unlikely to locate in the Metro Center, especially in Downtown. This is due to the fact that parcels are small and comparatively expensive, and large format retail tends to locate at major transportation “crossroads” such as the Alderwood Mall location at the intersection of Interstate 405 and highway 525.

Retail most likely to locate in the Metro Center should be “experience” retail, especially including restaurants and pubs. These businesses do not require a large amount of space, and will seek out special locations such as Everett’s historic downtown where residents and employees want to linger and enjoy the environment. These tenants will also continue to help build the special character of the center.

As Figure 30 shows, there is likely to be demand for between 30,000 and 50,000 square feet of grocery services in the next decade. This may be an adequate amount of demand to support a new grocery store, if the right store can be identified and fit into a mixed use project or developed as a stand-alone store. A compact, urban store will be most suited for the Metro Center. However, grocery stores outside the Metro Center could continue to improve their offerings, and thus diminish the opportunity for grocery development in the Metro Center.

## Site Development Indicators

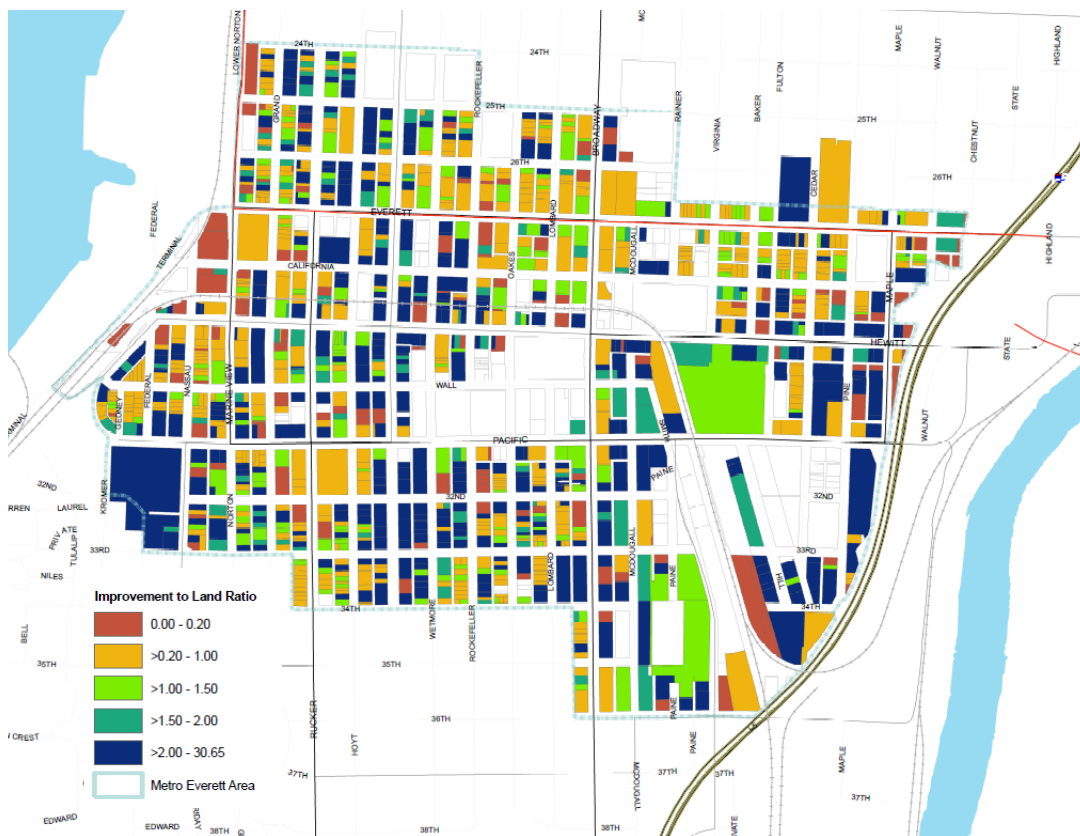
As part of this analysis, LCG was asked to identify metrics that indicate which properties and areas are more likely to be redeveloped.

Before addressing those metrics, we should note that many factors that influence whether or not properties redevelop are not captured by data sources. For example, property ownership—including the goals, financial capacity, and development savvy of the owner—has a very significant impact on development. Some property owners operate long-term family businesses on their properties, and therefore have no intent to redevelop.

The first data set that suggests which properties are more likely to redevelop is shown in Figure 18—the location of development in the past, particularly the past decade. Most large scale development been realized in the historic Downtown. Residents and tenants find this area desirable for the reasons covered above—views, pedestrian accessibility, and proximity to jobs, restaurants, and retail. It is likely these demand factors will continue, and developers will respond to the demand in Downtown.

Figure 32 shows a second data set that suggests which properties are most likely to redevelop: the ratio of improvement value (buildings and other site improvements) to land value.

**Figure 32. Improvement to Land Value Ratio, Metro Center**



Source: City of Everett, Snohomish County.



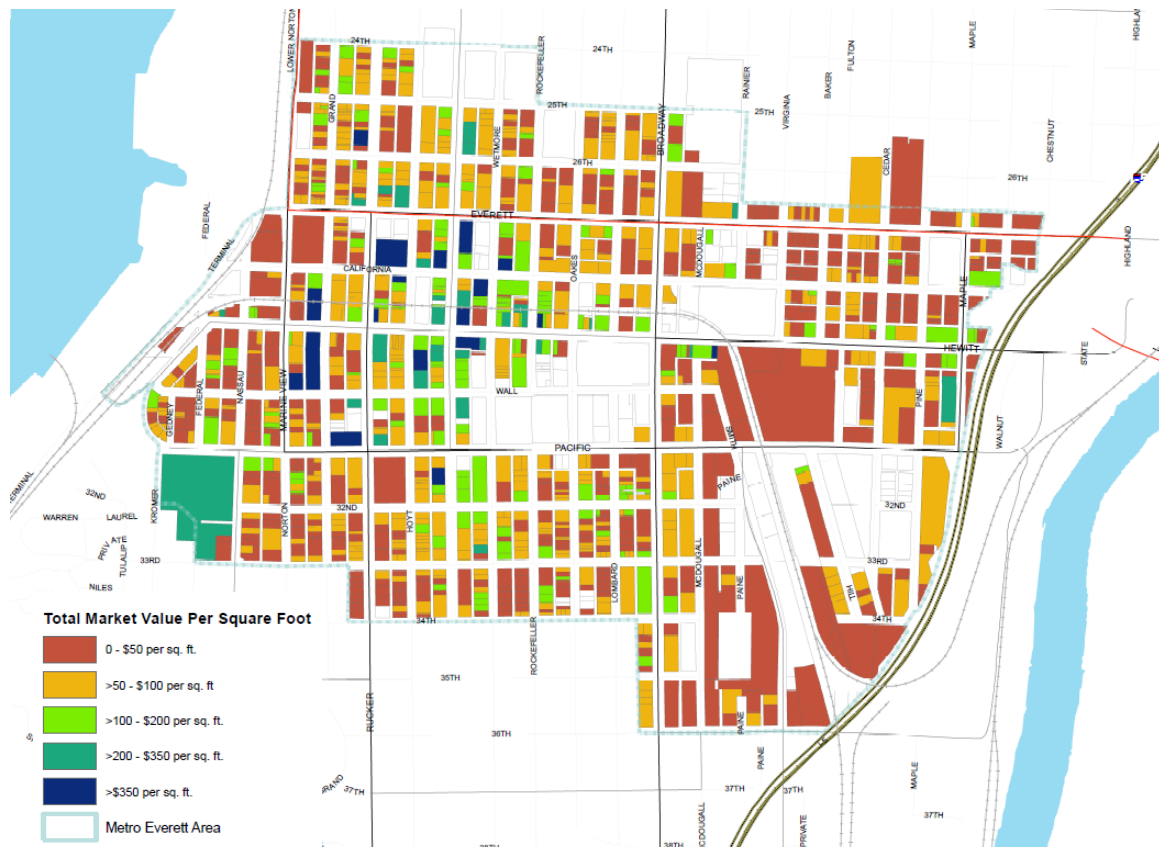
Properties that have a high ratio are occupied by large or valuable buildings; properties with a low ratio may be vacant, or be occupied by smaller, older, or otherwise less valuable buildings. Clusters of properties with a high ratio (blue) can be seen along Colby and Wetmore Avenues; and at the Providence Medical Center on the west side of the Metro Center. Any property with a ratio of less than 2 tends to be a reasonably good candidate for redevelopment; properties with a ratio of less than 1 are very good candidates. Most properties that appear as white below are publicly-owned.

Properties that have a low ratio, and are located next to properties with a high ratio, are also likely to redevelop: they have low levels of investment by are near properties with high levels of investment. Also, large properties offer special, large-scale redevelopment opportunities. While these may not redevelop quickly, when they do, they result in major changes.

### Property values (total building and land value, per square foot of site area), shown in

Figure 33, are another way to estimate the likelihood of redevelopment. In general, properties that are more highly developed and more valuable (green and blue), are more likely to stay as-is, and less likely to be redeveloped. Lower value properties (red and some yellow) have fewer site improvements and are therefore easier to redevelop. However, raw property values must be considered in concert with location and other demand considerations discussed elsewhere in this memorandum. Poorly located properties are not particularly likely to redevelop, even if they are occupied by lower value structures.

**Figure 33. Total Market Value per Square Foot**



Source: City of Everett, Snohomish County.



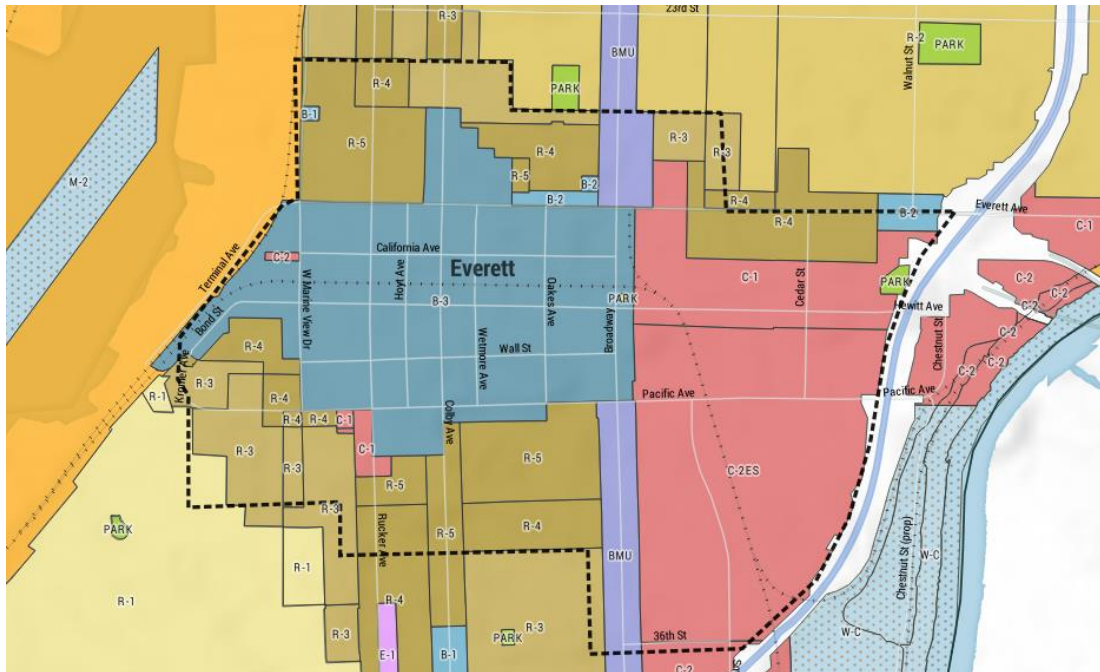
While property value has some predictive value, LCG recommends improvement to land ratio shown in Figure 32 as a more accurate predictor, since this ratio includes a metric that approximates future demand (land value), and current utilization (building value).

## Zoning

LCG was asked to conduct a preliminary review of zoning in the Metro Center in order to assess whether or not zoning is currently acting as a *significant* constraint to development. This section summarizes zoning in the Metro Center, and LCG's preliminary findings and recommendations.

Figure 34 shows the zoning designations in the Metro Center. The core of Downtown Everett is zoned B-3. The area surrounding Everett Station is zoned C-2ES. The Broadway Corridor is zoned BMU. Most of the remaining areas are considered "core residential areas," and are zoned for multifamily development (R-3, -4, and -5), with small areas zoned C-1 or B-2.

**Figure 34. Metro Center Zoning Designations**



LCG found that the following elements of the zoning code provide flexibility and are therefore unlikely to be a significant constraint on development:

- The major land uses—including housing, office, retail and other major use categories—are allowed in the B-3 and BMU zones, and to a more limited degree, in C-2ES).
- Allowed heights—which generally range from 65 to 200'—appear adequate. In certain cases in Downtown, where recent development has occurred, heights could be increased.
- There is no minimum parking requirement for office/commercial uses. This increases the feasibility of new office development, particularly for adaptive reuse/renovation projects.
- There are no minimum residential densities. (Such minimum densities could deter townhouses and wood-frame apartments.)

- A SEPA Planned Action EIS covers the B-3 zoned area. Most new development in this area, therefore, would need to complete minimal additional work to show compliance with SEPA (State Environmental Policy Act).
- Projects are not subject to design review by a design review board separate from Planning and Community Development staff.
- Perceived as simpler than other metro centers.

In the R-4 and R-5 zones, there is no maximum density, which also provides flexibility. In the R-3 zone, the maximum density is 29 units, which appears to be a reasonable constraint, given that the R-3 zone abuts single family neighborhoods outside of the Metro Center.

While zoning regulates the manner in which new development can occur, the City also provides several incentives for desirable development types, which encourage new development in the Metro Center, such as:

- Tax abatement for multifamily housing. This reduces property taxes and operating costs of multifamily housing, and therefore makes new multifamily development more feasible.
- New projects in the Metro Center can qualify for a TIF (transportation impact fee) reduction. This policy serves to encourage new development where transportation infrastructure already exists.

LCG's preliminary assessment of Metro Center zoning indicates that, in most cases, the City's current zoning supports its goals for a vibrant center, and is consistent with market demand. Therefore, zoning in the Metro Center is unlikely to be the primary obstacle to development. Rather, market factors such as achievable rent, construction, and land costs, are likely to be the primary obstacles to development.

Nonetheless, in some cases, we believe there are opportunities to streamline the code and bring it into closer alignment with market demand. An overarching goal should be to "make the right development easy." In other words, the code should reduce or eliminate regulatory barriers to the types of development envisioned by the community in the Downtown, Metro Center, and other plans. Specific recommendations include:

- Review and consider revising the residential parking requirement of one space per unit. While most Metro Center residents will continue to require parking (often one or more spaces per unit), more and more urban residential projects are being built with ratios below one space per unit. Large amounts of structured parking increases development costs significantly (sometimes, 20 percent or more), decreases feasibility, and may not be desired by residents (especially younger and lower-income residents). King County's Right Size Parking project provides extensive analysis on this issue: <http://metro.kingcounty.gov/programs-projects/right-size-parking/>
- Conduct a SEPA Planned Action EIS that provides an entitlement "envelope" for the parts of the Metro Center that are outside of the B-3 area. This will reduce the entitlement risk for potential projects in the BMU, C-2ES, and other areas, as developers would need to do less work to show compliance with SEPA.
- Consider expanding the types of multifamily housing that are allowed in C-2ES. Currently, only live/work units, which have working space as their primary function, are allowed in this zone. Allowing general multifamily would expand the range of options and encourage more transit-oriented development (TOD). Housing is the dominant land use in most TOD projects.

- Consolidate the small areas that are zoned B-2, C-1, and C-2, into the B-3 zone.
- Make sure that the code is clear, and easy to understand and use. For example, low-resolution images and text in the C-2 ES section should be improved for legibility, especially as the City seeks to encourage more development in this area. There are other areas where the code could be clarified.
- Conduct a more thorough review of the zoning code. The purpose of LCG’s review was to identify significant obstacles to development in the zoning code. There may also be a variety of minor obstacles that could be unnecessarily adding time, construction cost, or project planning work, but which do not lead to better development outcomes.

## Conclusions and Big Ideas

Based on our research of the local, regional, and national market trends, site visits, and interviews with City staff, developers, and local land use professionals, the following is a summary of LCG’s conclusions and “big ideas.”

### Conclusions

- There is a very important connection between “place making”—planning and building high-quality, walkable, urban environments—talent attraction, and long term economic development. Many talented individuals and companies seek out high quality urban environments, and these individuals and companies are a leading driver of long-term economic prosperity.
- The Metro Center, and particularly Downtown, offer a number of desirable amenities, including historic character, a concentration and mix of housing, employment, and recreational opportunities, high quality transportation and pedestrian facilities, and views. These amenities will continue to make the area desirable.
- The market area and metro region are expected to continue a robust rate of growth (about 1.3 percent annually), which should drive ongoing demand in the Metro Center.
- The Metro Center has been reasonably successful in recent years (e.g., it has added housing at a much faster rate than the City or County); however, it has not grown nearly as fast as some “hot” centers elsewhere in the metro region.
- In the coming decades, the greatest number of new households in Snohomish County will be age 65 and over. The City and developers should look for ways to appeal to this group.
- Most residential and office development in the past decade has taken place in the Downtown core towards the west end of the Metro Center. LCG believes this area will continue to be the most desirable part of the Metro Center for developers, residents, and tenants, and the greatest share of development in the 20-year planning time frame will take place in Downtown.
- During the next decade, LCG estimates that there will be demand for the following additional uses in the Metro Center: 800 to 1,400 housing units; 160,000 to 236,000 square feet of office space; and 170,000 to 300,000 square feet of retail.
- In the near two to five years, challenges to development will include rapidly increasing construction costs, and rents that remain lower than those in other Puget Sound regional centers. One implication of significantly higher construction costs is that new, ground-up construction will be

more difficult, and renovations may make more economic sense. (The majority of new office space added to the Metro Center in the past decade was via renovation.)

- Zoning in the Metro Center is largely supportive of the City’s vision and should not be a significant obstacle to development; however, LCG recommends further evaluation or revisions to residential parking ratios, further Planned Action EIS that encompasses the entire Metro Center, and changes to the C-2ES zone near Everett Station to allow more housing.

### Big Ideas

LCG’s “big ideas” for the Metro Center are as follows. Some are original. Others are borrowed from past plans, and are just as valid now as before, and should continue to be implemented.

- Continue to implement the 2006 Downtown Plan—make Everett’s west side world class. Continue to focus housing, office, and retail development in this area, along with complementary public realm improvements.
- Strengthen multi-modal connections between key destinations: Downtown and Everett Station; River and Sound; Metro Center and Providence Medical Center/Community College Campus.
- Enhance the Metro Center’s existing plaza/event spaces (e.g., at the County Campus, Library, or elsewhere), or create a new one. Activate this gathering space with festivals, events, food, and other activities, consistent with the concept of place making ([www.pps.org/reference/what\\_is\\_placemaking/](http://www.pps.org/reference/what_is_placemaking/)).
- Grow and attract companies to the Metro Center that build on Snohomish County’s key industry clusters and economic identity—aeronautics, manufacturing, healthcare, and professional and technical sectors. Capitalize on Everett’s identity as a manufacturing center to attract a new generation of “makers” to the Metro Center. Adaptive reuse projects may appeal to these makers Downtown; craft industrial projects near Everett Station should also be encouraged.
- Capture the employees who work in the Metro Center and Market Area. Employees who work here are a natural market of potential Metro Center residents.
- Work to secure commercial air passenger service at Paine Field—this would have a very positive effect on the Metro Center office and housing markets.
- Continue to grow Everett’s higher education offerings—this will drive the economy of the Metro Center and City in coming decades.
- Plan for senior housing and ensure the Metro Center has the amenities needed by new senior residents.
- Because of high construction costs in the near term, look for opportunities to complete less-expensive two- to four-story infill projects.
- Investigate the feasibility of a grocery store.
- Consider further transportation impact fee reductions, in line with the programs in place in Bellingham and other cities.
- Ensure that infrastructure issues such as limited sanitary sewer capacity do not impede development.

## Appendices

Figure 35. Summary of Households and Growth Rates

	Study Area	City of Everett	Everett Market Area	Snohomish	Seattle MSA	USA
Households -						
2000	2,735	37,848	144,531	224,852	1,196,568	105,480,101
Households -						
2010	2,879	41,312	175,227	268,325	1,357,475	116,716,292
Households -						
2015 est.	3,229	43,039	186,163	283,731	1,432,985	120,746,349
Annual						
Growth Rate						
2000-2010	0.5%	0.9%	1.9%	1.8%	1.3%	1.0%
Annual						
Growth Rate						
2010-2015	2.3%	0.8%	1.2%	1.1%	1.1%	0.7%

Source: US Census, ESRI Business Analyst Online.

Figure 36. Total Annual Permits, Washington State and City of Everett (indexed to 1994)

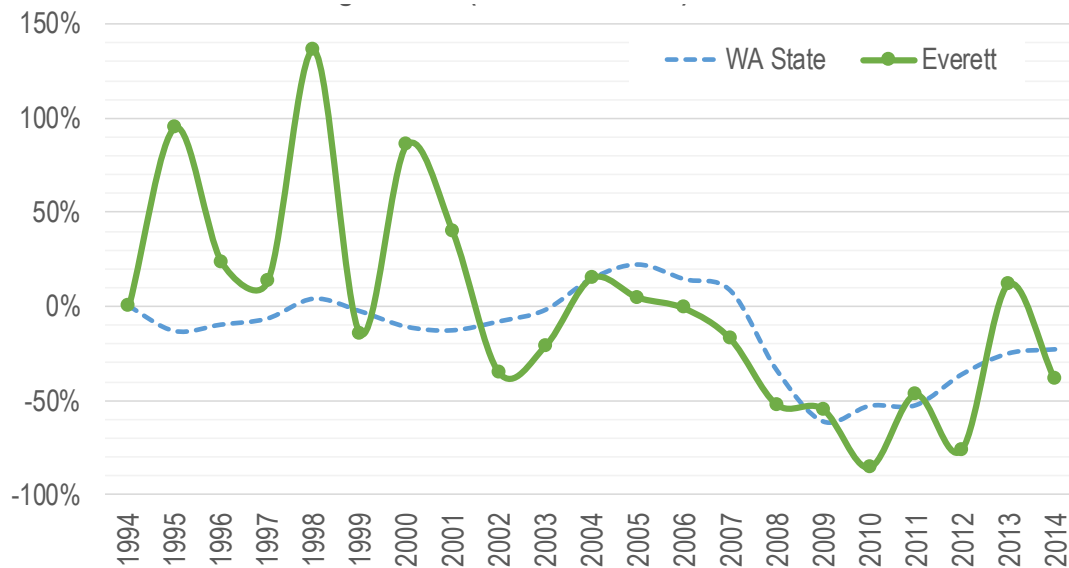




Figure 37. New Units, from PSRC Annual Building Permit Summary

	2011	2013	Sum
Downtown Everett	176	224	400
City of Everett	235	490	725
Downtown Share of City	<b>75%</b>	<b>46%</b>	<b>55%</b>

Figure 38. Industrial and Flex Space

